

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

SUPPLEMENTAL COMPLIANCE REPORT

OF

TOWN OF DAYTON

TIPPECANOE COUNTY, INDIANA

January 1, 2015 to December 31, 2018



FILED
10/10/2019

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Ronald Koehler	01-01-15 to 12-31-15
	Alena Merkel	01-01-16 to 03-23-18
	(Vacant)	03-24-18 to 04-01-18
	Allix Ostermeyer	04-02-18 to 01-04-19
	(Vacant)	01-05-19 to 01-21-19
President of the Town Council	Michelle Frewerd	01-22-19 to 12-31-19
	John Swick	01-01-15 to 12-31-15
	Mike Harris	01-01-16 to 12-31-18
	Tyrone Taylor	01-01-19 to 12-31-19



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

TO: THE OFFICIALS OF THE TOWN OF DAYTON, TIPPECANOE COUNTY, INDIANA

This report is supplemental to our audit report of the Town of Dayton (Town), for the period from January 1, 2015 to December 31, 2018. It has been provided as a separate report so that the reader may easily identify any Audit Results and Comments that pertain to the Town. It should be read in conjunction with our Financial Statements Audit Report of the Town, which provides our opinion on the Town's financial statements. This report may be found at www.in.gov/sboa/.

As authorized under Indiana Code 5-11-1, we performed procedures to determine compliance with applicable Indiana laws and uniform compliance guidelines established by the Indiana State Board of Accounts. The Audit Results and Comments contained herein describe the identified reportable instances of noncompliance found as a result of these procedures. Our tests were not designed to identify all instances of noncompliance; therefore, noncompliance may exist that is unidentified.

Any Official Response to the Audit Results and Comments, incorporated within this report, was not verified for accuracy.

Paul D. Joyce
Paul D. Joyce, CPA
State Examiner

August 26, 2019

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CLERK-TREASURER
TOWN OF DAYTON

CLERK-TREASURER
TOWN OF DAYTON
AUDIT RESULTS AND COMMENTS

TIMELY RECEIPT RECORDING AND DEPOSITS

Condition and Context

The Town receives money from Tippecanoe County from tax distributions. Based on the records presented for audit, we determined that the Town was not making timely deposits.

In 2015, 3 of the 55 receipts tested were recorded or deposited from 8 days to 19 days after receiving the check. The average time between receiving the check, recording the receipts, or depositing the tax distributions was 12 days.

In 2016, 4 of the 60 receipts tested were recorded or deposited 10 days after receiving the check. The average time between receiving the check, recording the receipts, or depositing the tax distributions was 10 days.

In 2017, 4 of the 31 receipts tested were recorded or deposited from 8 days to 10 days after receiving the check. The average time between receiving the check, recording the receipts, or depositing the tax distributions was 9 days.

In 2018, 22 of the 33 receipts tested were recorded or deposited from 14 days to 98 days after receiving the check. The average time between receiving the check, recording the receipts, or depositing the tax distributions was 40 days.

The Town receives money from the State of Indiana from tax distributions. Based on the records presented for audit, we determined that the Town was not making timely deposits.

In 2017, 8 of the 33 receipts tested were recorded or deposited from 3 days to 13 days after receiving the check. The average time between receiving the check, recording the receipts, or depositing the tax distributions was 7 days.

In 2018, 28 of the 35 receipts tested were recorded or deposited from 2 days to 92 days after receiving the check. The average time between receiving the check, recording the receipts, or depositing the tax distributions was 35 days.

Criteria

Indiana Code 5-13-6-1(d) states in part:

"Except as provided in subsection (g), a city (other than a consolidated city) or a town shall deposit funds not later than the next business day following the receipt of the funds in depositories:

- (1) selected by the city or town as provided in an ordinance adopted by the city or the town; and
- (2) approved as depositories of state funds. . . ."

CLERK-TREASURER
TOWN OF DAYTON
AUDIT RESULTS AND COMMENTS
(Continued)

PENALTIES, INTEREST, AND OTHER CHARGES

Condition and Context

The Town incurred penalties, interest, and other charges from the Internal Revenue Service (IRS) in the amount of \$1,387 for not remitting withholding taxes on a timely basis. This amount was paid to the IRS as of the date of this report.

The Town incurred penalties, interest, and other charges from the Indiana Department of Revenue (IDOR) in the amounts of \$1,367 and \$394 in 2017 and 2018, respectively, because the Town did not remit payments on a timely basis. These amounts were paid to the IDOR as of the date of this report.

As of the date of this report, the IRS was still processing the penalties, interest, and other charges related to quarters one and three of 2018.

Criteria

Officials and employees have the duty to pay claims and remit taxes in a timely fashion. Failure to pay claims or remit taxes in a timely manner could be an indicator of serious financial problems which should be investigated by the unit. Additionally, officials and employees have a responsibility to perform duties in a manner which would not result in any unreasonable fees being assessed against the unit. Any penalties, interest, or other charges paid by the unit may be the personal obligation of the responsible official or employee. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 1)

CERTIFICATION ON INTERNAL CONTROL STANDARDS

Condition and Context

The Clerk-Treasurer incorrectly certified, in the Town's Annual Financial Report, that personnel had received training regarding internal control standards. Documentation was not provided to verify that the Town's personnel received the training on internal control standards.

Criteria

Indiana Code 5-11-1-4(a) states:

"The state examiner shall require from every municipality and every state or local governmental unit, entity, or instrumentality financial reports covering the full period of each fiscal year. These reports shall be prepared, verified, and filed with the state examiner not later than sixty (60) days after the close of each fiscal year. The reports must be in the form and content prescribed by the state examiner and filed electronically in the manner prescribed under [IC 5-14-3.8-7](#)."

INTERNAL CONTROLS

Condition and Context

The Town has not properly designed or implemented a control system related to cash and investments balances, receipts, disbursements, and financial transactions and reporting.

CLERK-TREASURER
TOWN OF DAYTON
AUDIT RESULTS AND COMMENTS
(Continued)

1. Lack of Segregation of Duties: The Town had not established a system of internal controls related to cash and investments balances, receipts, disbursements, and financial transactions and reporting. Controls should be in place to reduce the risks of errors in financial reporting.
2. Monitoring of Controls: The Town did not have a system to identify and communicate corrective actions to improve controls. Effective internal controls over cash and investments balances, receipts, disbursements, and financial transactions and reporting required the Town to monitor and assess the quality of the system of internal control.

Criteria

The Indiana State Board of Accounts (SBOA) is required under Indiana Code 5-11-1-27(e) to define the acceptable minimum level of internal control standards. To provide clarifying guidance, the State Examiner compiled the standards contained in the manual, *Uniform Internal Control Standards for Indiana Political Subdivisions*. All political subdivisions subject to audit by SBOA are expected to adhere to these standards. The standards include adequate control activities. According to this manual:

"Control activities are the actions and tools established through policies and procedures that help to detect, prevent, or reduce the identified risks that interfere with the achievement of objectives. Detection activities are designed to identify unfavorable events in a timely manner whereas prevention activities are designed to deter the occurrence of an unfavorable event. Examples of these activities include reconciliations, authorizations, approval processes, performance reviews, and verification processes.

An integral part of the control activity component is segregation of duties. . . .

There is an expectation of segregation of duties. If compensating controls are necessary, documentation should exist to identify both the areas where segregation of duties are not feasible or practical and the compensating controls implemented to mitigate the risk. . . .

The Green Book identifies a list of control activity categories that are meant only to illustrate the range and variety of control activities; the list is by no means all inclusive, but is reproduced here for reference purposes: . . .

- Accurate and timely recording of transactions. . . ."

"Evaluations are used to determine whether each of the five components of internal control is present and functioning. These evaluations may be conducted on an ongoing or periodic basis. The criteria used are developed by the oversight body, elected officials, management, governing boards, or recognized standard-setting bodies or regulators. . . .

A baseline of the current state of the internal control system is compared against the original design of the internal control system. The baseline consists of issues and deficiencies identified in the internal control system. The results of the monitoring process are evaluated and documented. . . .

Management remediates identified issues. . . ."

CLERK-TREASURER
TOWN OF DAYTON
EXIT CONFERENCE

The contents of this report were discussed on August 26, 2019, with Allix Ostermeyer, former Clerk-Treasurer.

The contents of this report were discussed on August 26, 2019, with Alena Merkel, former Clerk-Treasurer.

The contents of this report were discussed on August 26, 2019, with Michelle Frewerd, Clerk-Treasurer; Tyrone Taylor, President of the Town Council; Mike Harris, Town Council member; Tammi Nice, Town Council member; Ashley Stevenson, Town Council member; Ronald Koehler, former Clerk-Treasurer and current Town Council member; and Robert S. Taylor, Town Marshal.

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TOWN COUNCIL
TOWN OF DAYTON

TOWN COUNCIL
TOWN OF DAYTON
AUDIT RESULT AND COMMENT

TRAINING ON INTERNAL CONTROL STANDARDS

Condition and Context

Employees of the Town had not received training on the internal control standards. The Town failed to ensure that personnel received the training concerning the internal control standards adopted.

Criteria

Indiana Code 5-11-1-27(g) states:

"After June 30, 2016, the legislative body of a political subdivision shall ensure that: . . .

- (2) personnel receive training concerning the internal control standards and procedures adopted by the political subdivision."

TOWN COUNCIL
TOWN OF DAYTON
EXIT CONFERENCE

The contents of this report were discussed on August 26, 2019, with Michelle Frewerd, Clerk-Treasurer; Tyrone Taylor, President of the Town Council; Mike Harris, Town Council member; Tammi Nice, Town Council member; Ashley Stevenson, Town Council member; Ron Koehler, former Clerk-Treasurer and current Town Council member; and Robert S. Taylor, Town Marshal.